

2014 Legislative Session: Budget and Tax Policy Update

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Revenue Stabilization and Tax Policy Committee
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Overview

- Sustainable spending growth
- Targeted school reforms
- Health workforce initiatives
- Economic development funding
- Reserves have been negatively impacted by legacy issues
- Risks from litigation

Major Challenges

- FY13 Medicaid audit: \$60 million of uncollectible receivables
- Union lawsuit court order costs will exceed \$30 million
- Tobacco settlement revenue fell by \$20 million
- Lottery tuition program facing \$25 million shortfall
- Federal spending cuts have dramatically slowed job growth in NM

FY15 Budget Summary

- Total recurring spending = \$6.15 billion, up \$252 million or 4.3%
- Public Education up \$148 million (5.8%):
 - \$38 million for education reform initiatives (total now \$107 million); 3.9% of total public educ. spending
 - \$110 million increase in formula funding -- \$70 million for salary increases
- Economic development programs:
 - LEDA \$15 million
 - Recurring JTIP
 - Tourism advertising increase
- Medicaid General Fund savings of \$23 million
- General Fund reserves 7.3%

Public Education Reforms

- Early reading initiative
- Teacher evaluations
- Teacher and Principal preparation and support
- College/Workforce readiness
- Dropout prevention
- Pre-K and K-3 Plus

Health Workforce Initiatives

- Expansion will add 200,000 new clients to Medicaid
- Increased Nurse Practitioner slots at UNM
- Subsidies for practitioners in rural areas
- Increased Primary care residencies at UNM Sch. Of Med.
- Expand Telemed
- Training and certification for Community Health Workers

Other Important Budget Measures

- Lottery tuition program stopgap measures:
 - At 4-year colleges must carry 15 credit hours
 - Maximum of 7 semesters
 - Uniform percent of average in-state tuition by sector
 - General Fund infusion: \$36 million one-time plus \$19 million per year for two years
- Safety Net hospital program: Reduces counties' financial support, increases state and federal
- Judicial Pension solvency:
 - Reduced, delayed COLA's
 - Increased employee contributions
 - Long-term solvency not assured

Important Tax Measures

- NOL carryforward extended to 20 years
- Aircraft parts and services deduction expanded
- Aircraft sales deduction created

Capital Outlay Appropriations

- Total funding \$570 million:
 - \$200 million for public schools
 - \$167 million for GO projects: Higher Ed, Aging, Libraries
 - \$90 million for local projects
 - \$89 million for water and wastewater projects: Las Vegas, Alamagordo, Sta. Teresa, etc.
- Statewide Projects included:
 - \$5 million for LEDA
 - Public safety telecommunications
 - Public school broadband

Capital Outlay Update

- Executive Order 2013-006 improves accountability and coordination
- NMFA recovery continues
 - Increased funds for planning
- CIB/TIF programs implemented, expanded
- Water Trust Board process reformed
- HB 55 addresses critical water supply issues
- Improved targeting of GO bond appropriation

Update on EO 2013-006 (Audit & Budget Compliance)

- Total “At-Risk” entities decreased from 51 to 30:
 - Counties: 1 to 0
 - Municipalities: 28 to 18
 - Special districts: 11 to 8
- Some At Risk entities have made significant progress:
Magdalena: 2009 to 2012; Maxwell: 2007 to 2012
- Newly-compliant entities:
 - Carlsbad; Santa Rosa; Reserve schools
- 99% of 2014 funding eligible under Executive Order

FY14 General Fund Revenue Tracking

	Forecast Growth	Updated Expectation
General Sales Taxes	2.9%	3.8%
Selective Sales Taxes	7.3%	4.0%
Income taxes	-1.2%	-0.5%
Oil & Gas Taxes and Royalties	7.9%	18.3%
Total Recurring Revenue	2.7%	5.8%

- Oil production growing rapidly, prices strong
- Low inflation, weak job market imply low sales and payroll growth
- Risk due to refundable tax credits, local distributions hold harmless

Budget Issues and Challenges

- Litigation risks:
 - Union pay lawsuit
 - High-Wage Jobs Tax Credit
 - *Eunice v NM*
- Lottery program solvency
- HED funding formula – lack of consensus, transparency, consistency
- Historical cash reconciliation
- Long Term:
 - Federal budget austerity
 - Medicaid federal match decrease

Tax Policy Challenges

- Reducing Small business tax burdens
- Sales tax reform to reduce pyramiding
 - R&D
- Remote commerce taxation
- Local GRT option clean-up
- Independent hearing officers